

2021 YEAR 12 ECONOMICS ASSESSMENT 4

Semester 1

**Data Interpretation Test Weight 10%**

**Total marks: 24**

**Time allowed: 45 minutes**

**Topics: Terms of Trade / Exchange Rates**

Student No: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Marks awarded: \_\_\_\_\_\_\_

**Section 1: Multiple choice questions (6 marks)**

This section has **6** questions.

**Circle the correct answer.**

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| 1. | If the import price index rises faster than the export price index this means |
|  | a. | the country is more comptetive on world markets. |
|  | b. | the country is less competitive on world markets.  |
|  | c. | the country must use a greater quantity of exports to obtain a given quantity of imports.  |
|  | d. | the country is able to obtain a greater quantity of imports with a given quantity of exports. |

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| 2. | A favourable movement in Australia’s terms of trade is said to occur when: |
|  | a. | The general level of export prices decreases relative to the general level of import prices. |
|  | b. | The general level of export prices increases relative to the general level of import prices. |
|  | c. | There is a decline in the terms of trade index. |
|  | d. | The terms of trade index remains constant. |

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| 3. | A possible negative effect of a strong rise in the terms of trade is |
|  | a. | an increase in the current account deficit. |
|  | b. | an increase in export prices which reduces demand for exports. |
|  | c. | a rise in the exchange rate which reduces the competitiveness of domestic industries. |
|  | d. | an increase in the trade surplus. |

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| 4. | Australia’s exchange rate is described as: |
|  | a. | A fixed system |
|  | b. | A flexible system |
|  | c. | A managed floating system |
|  | d. | A free floating system |

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| 5. | Which of the following increases the demand for Australian dollars on the foreign exchange market? |
|  | a. | Interest and dividend payments from overseas to Australian firms. |
|  | b. | Interest and dividend payments to US firms. |
|  | c. | Purchases of military equipment overseas by the Australian government.  |
|  | d. | Australian imports of goods and services. |

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| 6. | Appreciation of the Australian dollar is most likely to: |
|  | a. | Increase the value of foreign currency in terms of the Australian currency |
|  | b. | Make Australia less attractive to foreign investment |
|  | c. | Improve Australia’s current account |
|  | d. | Lower the value of overseas reserves |

**Section 2: Data Interpretation / Short Answer (18 marks)**

This section contains **two (2)** questions. Answer all questions. Write your answers in the spaces provided.

**Question 7 (8 marks)**

**The table below shows terms of trade data for the Australian economy.**

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|  | **Export Price Index** | **Import Price Index** | **Terms of Trade** |
| Apr, 2020 (Q1) |  102.7 |  99.0 | 103.7 |
| Jul, 2020 (Q2) |  97.6 |  98.1 | 99.5 |
| Oct, 2020 (Q3) |  94.9 |  96.5 | 98.3 |
| Jan, 2021 (Q4) |  105.5 |  99.0 |  |

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| a. | Identify the trend in the export price index from April 2020 to October 2020. (1 mark)  |
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| b. | Calculate the terms of trade for January 2021. (1 mark)  |
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| c. | Identify one factor affecting the terms of trade in Jan 2021. (1 mark)  |
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| d. | Explain possible impacts of a favourable movement in the terms of trade. (5 marks)  |
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**Question 8 (10 marks)**

This question refers to the edited extract below, taken from an article by Patrick Hatch that

appeared online on 4 January 2021.

**Aussie dollar strength could weigh on exporters in COVID-19 recovery**

Agriculture, manufacturers and other exporters could suffer if the Australian dollar (AUD) continues to push through two-year highs against the US dollar (USD) off the back of soaring commodity prices.

The Aussie (AUD) rose 10 per cent against the greenback (USD) during 2020 to hit a two year-high of US77¢ on December 31 amid a broad weakening of the US dollar.

The rise against the US is expected to continue, with Westpac forecasting the Aussie to hit US83¢ by the end of 2021.

Sarah Hunter, chief Australian economist for BIS Oxford Economics, said manufacturing, agriculture – already reeling from Chinese tariffs – and other exporters would be most exposed by the stronger dollar if overseas buyers shifted to cheaper competitors.

Deloitte Access Economics partner Nicki Hutley said demand for Australia's iron ore, which hit a record high last month, and other resources would not be affected by the stronger dollar as China unleashed a wave of infrastructure spending to drive its COVID-19 economic recovery.

Although the downturn in demand from trading partners ravaged by COVID would be a far bigger hit than anything the Aussie dollar was doing, Ms Hutley said she would be much more nervous about the dollar acting as a brake on our own economic recovery if it passed through 80¢.

Retailers and other importers could benefit from greater purchasing power abroad, she said, which could either be passed on to consumers or kept as profit. Although Commsec chief economist Craig James said the stronger dollar could lead more consumers to shopping online for overseas retailers.

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| a. | State the expected change in the AUD/USD exchange rate as forecasted by Westpac. (1 mark)  |
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| b. | Demonstrate and explain a factor that has affected the value of the Australian dollar in 2020. (4 marks)  |
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| c. | Discuss positive and negative effects resulting from the change in the value of the Australian dollar in 2020. (5 marks)  |
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End of Assessment